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SCIENTIFIC TAXATION:

A Key to the Solution of the Labor Problem.

Complete

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The origin of taxation is lost in the dim mists of antiquity. We may safely conclude, however, that long before recorded history began taxes had been levied and collected for the needs of primitive society.

Bastable, the great Irish political economist, defines a tax as "a compulsory contribution of the wealth of a person or body of persons for the service of the public powers." "It implies," says Adams, "the institution of private property; it assumes the prosecution of private industry."

The compulsory nature of a tax is often emphasized by associating death and taxes as equally certain.

Taxation is spoken of as a necessary evil. It is well, however, to emphasize the opposite view, which regards taxes as a return for services to be rendered by the State. Indeed, it may be asserted that there is no contribution, compulsory or voluntary, made by citizens from which they receive greater benefit than from that paid for the support and perpetuation of government and organized society, where the tax is justly levied and wisely expended.

I think it would be conceded by the great majority of political economists that our present system of taxation is antiquated, that it throws the burden of government on those least able to bear the

burden; that it encourages political immorality, places a premium on perjury, and that it fails to reach new forms of wealth and new kinds of industrial ability developed within the past half century.

The first of the four canons of taxation laid down by Adam Smith is that "The subjects of every State ought to contribute to the support of the government in proportion, as nearly as possible, to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State." In other words, equality of sacrifice is the basis of a just system of taxation. It means that an individual with an income of \$50,000, who pays one-tenth of that amount as a tax, is not making an equal sacrifice with the person with an income of \$5,000 who pays in the same ratio. An equal sacrifice based on superior ability to contribute will demand that the \$50,000 income shall pay proportionately more than the smaller income.

The four classical canons of taxation of Adam Smith are defined as relating to equality, certainty, convenience, and economy. Subsequent political economists have generally concurred in those maxims, as far as they go, but it must be confessed that their application has been no less generally neglected.

This brings us to the question of the forms of taxation, of which there are two—direct and indirect. Direct taxes are those levied upon the person or persons who are ultimately to pay them. These are, generally, income and land taxes. An honest politician is defined as one who stays bought. Similarly, we may define an honest tax as one that when "put" stays put. Indirect taxes are imposed with the expectation that the first payer will shift the burden in whole or in part upon others. The first payers of indirect taxes escape the burden by increasing the price of their commodity or service, thus recouping themselves for their advances.

Indirect taxes represent a survival of conditions existing when the ruling classes paid no taxes, when the payment of taxes was a token of servility. They are now used by the wealthy, who are still the ruling class to a great extent, to shift the burden of taxation as much as possible on the poor. The latter class fail to perceive that indirect taxes are paid little by little in the cost of all commodities that are necessary, as food, clothing and shelter. Indirect taxes on consumption are a mere tax on existence, and to that extent are vicious and unjust.

It is, of course, urged in favor of indirect taxation that it can be employed as a means of regulating or stimulating industry, as for instance, by protective tariffs and bounties, and that it can also be used to restrict or control vicious forms of expenditure, as in the case of the liquor traffic. Of this I shall speak later.

The objection to indirect taxation, apart from the fact that its object is to conceal its true incidence, is, that it involves an enormous cost for collection. Thousands of custom officials and custom houses and bonded warehouses are necessary to insure that dutiable commodities do not escape the tax. This force of officials must be continuously employed, and at an enormous expense. It is also to be considered that the burden of indirect taxation is greatly increased by the fact that the first payers of the tax add the interest on those advances to the price of the goods, and that those interest charges are added to by every separate dealer through whose hands the goods pass before they reach the final consumer.

Direct taxes, on the contrary, are easy of collection, the collectors of them are required for only a few weeks in each year. The burden of a direct tax is more

likely to be borne by the first payer of it. Its yield and effects may be calculated with greater certainty than indirect taxes whose incidence is uncertain. Direct taxes deal with land, property and incomes, the value and extent of which is more or less definitely known, and the results of the assessments may be, in a great measure, foreseen and relied upon. The more definite and open the manner in which taxes are paid, the more certainty will there be that the ends of taxation will be realized. On that account the taxpayer will exercise greater vigilance in seeing that the taxes are equitably laid and wisely expended. If, for instance, the cost of a war of aggression was levied on land and incomes alone, instead of on consumption, the owners of the land and incomes (who are the only ones who profit by such wars) would more carefully count the cost before entering into them.

This brings us to the very important question of the distribution of taxation. Upon what, whom, and why must it be levied?

To the first two queries I answer, on land and other property, and incomes, and upon the owners and beneficiaries of the same. To state it in another way, rent, interest, and surplus profits, are the natural sources from which the necessary charges of the State should be derived. They are what remains after the costs of subsistence have been subtracted. A tax on mere existence is indefensible.

Let us consider, first, the tax on land. Land is a free gift of nature to all men. It is an indispensable factor in the production of wealth. Without land man can not exist for a moment, for a man must have standing room to even breathe, or intercept the rays of the sun. The owner of land, where his ownership is undisputed, may prescribe the terms upon which the landless may exist. In the case of a country, like Ireland, for instance, where the land is all needed for the support of the population, the landowners may exact, and, as a matter of fact, do exact as economic and rack rent all over the barest living. The increase in the economic value of land is not due, in any sense, to the personal exertion of the landowner as such, but, on the contrary, is due exclusively to the increase in population and wealth. Economic rent is, therefore, an "unearned increment," which created by the community is unjustly appropriated by the private owner. There-

fore, there can be no juster source of public revenue than the unearned increment of land values. But as private ownership of land is a wrong in which we have all concurred, and in which many not now landowners have been the beneficiaries, I would not confiscate economic rent, as proposed by the single taxers. For confiscation of economic rent is equivalent to confiscation of the land. But I would commence by taxing all vacant land at the same rate as adjacent improved land, of equal site, or productive value. This would greatly discourage and finally break up the "vacant lot industry," and would alone in five years reduce the tax on industry through payment of economic rent, from 25 to 50 per cent. This would require no change in existing laws, which require that all property shall be assessed at its "fair cash value." It is a notorious fact that vacant land is everywhere under-assessed. If the law is strictly enforced the landowner can not complain. He bought his land subject to the laws of the country. If he has been the beneficiary so far in the violation of the laws, he certainly can not complain if they are enforced in future. Having done this, I would then increase the tax on land values until all future increase would flow as a tax into the public treasury.

I am aware that single-taxers claim that the amount derived from the confiscation of economic rent would alone provide all the revenue required for public use. But single-taxers overlook the fact that present rent is not "economic" rent, but is, on the contrary, "monopoly" rent, due mostly to the monopolization of all vacant land. The single tax, or any land tax approaching it in extent, would make the monopolization of vacant land impossible, by throwing upon the market many times more vacant land than there is present use for, with the obvious result that economic rent would greatly decrease, and instead of furnishing all public revenue, would probably not provide one-fourth of it.

The next source of revenue for taxation would be incomes. A tax on land values can not be shifted, neither can a tax on incomes, if the tax is general. Taxes on incomes derived from the monopoly of land or industry, can not be shifted, because it must be assumed in either case that the highest monopoly price was obtained; a tax, therefore, can not be added

in rent or price, but must be paid from the monopolist's surplus profits.

It is urged against income taxes that they are a tax on thrift, skill and ability; that it is inquisitorial; that the dishonest evade it, and to that extent the honest are sufferers, and for that reason it places a premium on fraud and perjury. But the same objection may be made against all forms of taxation. The eighth biennial report of the Illinois Labor Bureau showed millions of dollars' worth of land in the city of Chicago assessed at between 3 and 11 per cent. of its value. A just tax can not be abandoned because the dishonest and unscrupulous will seek to evade it. The penalty for evading the tax should be made so severe as to make it dangerous, as well as unprofitable.

But the principal reason why a tax on incomes is just is that under a competitive industrial system the instruments of production must, and do gravitate into the possession of a small class of capitalists. The great mass of the workers becoming divorced from their tools, are forced, under competition with their fellows, to sell their labor power for a subsistence, based upon the standard of living of the time and country. The restrictions upon ownership of the means of production are, of course, not legal, but economic. Only a certain amount of capital, in the form of instruments of production can be profitably employed. There is no legal restriction on a thousand weavers, for instance, owning a thousand separate cloth factories, but there is, obviously, an inexorable economic restriction. The ownership of the means of production is not always the result of personal thrift or ability. Wealth may be inherited, and the possessor of it, lacking special ability, may yet purchase what he lacks in a competitive market. If the one thousand weavers referred to had all equal wealth and ability, a thousand separate factories would still be an economic impossibility. It follows, therefore, that the owners of the means of production have an enormous economic advantage, and possessing that advantage, it is obviously only just that they should pay the principal cost of the support of an industrial system that gives them so great an economic advantage, and which guards the wealth they accumulate under it, both against foreign aggression and domestic discontent and violence.

It is asserted by individualists that a man has the right to himself, and to the

wealth which he can legally acquire in equal competition with his fellows. But Ruskin contended truly that a long head was just as effective in robbing your neighbor as a long arm. I hold that the possessor of the long head has no more ethical right to exploit all the "rent of ability" between himself and the "margin" of mediocrity, than the owner of land has to absorb all the rent over the "margin of production." The ability to acquire ownership in the means of production is not a talent which a man originates by his conscious will and volition. No man furnishes his own brains. Superior "ability" is as much the product of nature as land, and one no more than the other should be used to exploit the landless, or those of only average ability. Under an industrial system which permits superior brains to take such an advantage of the ignorance of the great mass of the producers, it is evidently fair, as I have already said, that wealth should pay the cost of defending it.

I would, therefore, make a tax on incomes, a progressive one, taking the larger incomes in geometrical progression as they rise. The larger the income the less is the owner responsible for its creation, and the more he owes society for its aid in providing the conditions that make its accumulation possible, and the greater his debt for the expense in safeguarding it. Hence, large incomes should not only pay more than small incomes, but proportionately more.

The principle of "stoppage at the source" might everywhere be adopted where possible. This process is the payment of the tax by corporations and individuals deducting the amount from interest, dividends or salaries at the time and place where the same are declared or paid before they reach the owner's hands. Both on grounds of adequacy and economy, this plan is to be recommended.

There should be progressive inheritance taxes. Such a tax is an especially just one. The transmission of wealth from the dead to the living is not a natural right, but is altogether a legal permission. Blackstone said: "All property must cease upon death, considering men as absolute individuals unconnected with society." And again: "There is no foundation in nature or natural law why the son should have the right to exclude his fellow creatures from a determinate spot of land because his father had done so, or why the owner of a particular field or

a jewel, when lying on his deathbed, and no longer able to maintain possession, should be able to tell the world which of them should enjoy it after him."

The courts of all countries, including our own, have decided that the State has the right to make any disposition of a decedent's estate that may be considered just towards society. Inheritance taxes have the advantage of ease of collection and ease of payment. Such a tax does not fall on production, and can not be shifted. It reaches personality as no other tax does, and not the least of its advantages is that it reaches the tax-dodger, who, during his life, evaded the payment of his just share of the burden of taxation.

Inheritance taxes should vary from 5 to 50 per cent. of the value of the property. Increasing progressively, not only with regard to the amount inherited, but also with special regard to the distance in relationship of the inheritors. All inheritances of one million dollars or over should pay a tax of 50 per cent. Collateral inheritance of distant relationship should pay the same percentage on all bequests. Indeed, I doubt whether equity requires that collateral heirs should share in any part of an inheritance. In a symposium on this subject—among others—in the February "Cosmopolitan," Edward Atkinson, of Boston, said: "I wholly approve an inheritance tax, even a progressive one." Prof. E. Benjamin Andrews held that: "An income tax and an inheritance tax are both fair." Banker Henry Clews thought, "That a man who accumulated great wealth, should, after ample provision for his family, divide the balance among his employees who had served him faithfully in aiding him to amass his fortune." Prof. David Starr Jordan said: "I do not believe that collateral heirs should be regarded as heirs at all. An inheritance tax should be levied on all money not devoted to public uses. Some day we may do away with the idea that a man may inherit anything he did not help to create or to save." The men quoted can not justly be accused of socialistic tendencies, so that the proposition to deduct 50 per cent. of all bequests to collateral heirs is not wildly radical.

All bequests to direct heirs up to \$10,000 should be exempt from tax. From that amount up to \$100,000 the tax should be gradually progressive, increasing rapidly on larger bequests. Bequests for purely charitable or educational pur-

poses might be exempted from all, or at least a large tax.

All franchises of corporations should be taxed on their market value in the same ratio that we tax tangible property. The taxable value of a franchise may be determined by adding together the market value of the stock and bonds. If we deduct from this the value of the tangible property, we have the value of the franchise. The market value of the stocks and bonds is the total upon which the tax should be levied. Our aim should be, so long as we permit private ownership of public franchises, to tax away all fictitious capitalization, so that such corporations will only be permitted to earn a reasonable return on actual investments, after allowing for depreciation in value of plant, renewals, etc. In case of public service corporations, we can effect this purpose either by a direct tax, or by a reduction in their rates for service.

It is said that unworked anthracite coal lands in the State of Pennsylvania are assessed as low as \$2.50 per acre, while the actual value often exceeds \$1,000 per acre. A tax on actual values would depreciate enormously the selling value of coal lands, and thus help to make monopoly of the coal business a little more difficult, with the added advantage of the great decrease in price that we will have to pay when the government at some time, in the not distant future, will be compelled to exercise the right of eminent domain, and operate the mines in the interests of the community. The advantage of equitable taxation of all public service corporations in reducing the value of their stocks by squeezing out the water, will be equally apparent, as the idea of public ownership takes effect, in reducing their selling price to the actual value of the plant.

The tax on personal property should be retained. The objection that it is difficult of collection is not a sufficiently valid reason for abandoning it. There are great differences in different localities in respect to ability to enforce payment of personal taxes. Thus, Philadelphia succeeds in reaching a larger share of personal property than does Chicago. In the former city the total value of moneys, credits, bonds and stocks returned for taxation in 1893 was, in round numbers, \$299,000,000, while in Chicago, with an assessed valuation of 45 per cent. greater, the returns for the same year, for the same class of property, was less than

seven millions! Considering that Chicago taxes corporate bonds, and that Philadelphia does not, the discrepancy between the two cities is enormous, and shows by comparison the possibility of a more general improvement in the collection of personal taxes.

There is no just reason why personal property should be exempt from taxation. The cost to society for its protection is the same as for other forms of property, and the owners should not be allowed to evade their share of the cost of governmental protection.

Tariff taxes, as a source of revenue, should be abolished. When retained, the object should be for purely protective purposes. Instead of being imposed for revenue, with incidental protection, the purpose should be for protection exclusively, wherever it can be shown that protection is needed, the revenue being incidental. When a given industry no longer needed protection, the tariff should be promptly removed. Any revenue derived from that source to be applied to some general purpose, education, for instance.

Excise taxes on the manufacture of liquor, and liquor licenses, for the purpose of restricting or controlling the evils of the liquor traffic, might be retained for their moral effect, but principally because the operation of this traffic imposes special burdens on the community for police regulation and control, the cost of which is just occasion for the tax.

Poll taxes, and occupation or business taxes, other than that on the liquor business, should be abolished. The former is a tax on mere existence, while the latter is shifted more or less by being added to the cost of goods or services.

There, however, is a minimum of property and income necessary for actual subsistence and to protect the life of the owner that should go untaxed. The reasons therefor are the same that I offered in favor of a tax on incomes. For those reasons I would exempt from taxation the homestead to the value of \$2,500, and all wages or incomes below \$1,200 per annum. In New Zealand land to the value of \$2,500, and incomes below \$1,500 are exempt from State taxation. If that country is prosperous under such exemptions, and there is no question as to the general prosperity prevailing there, it follows that it might prove equally beneficial in this country.

To recapitulate: A scientific system of equitable taxation requires that all in-

direct taxes, the incidence of which falls on consumption, and occupation taxes, open to the same objection, should be abolished. Tariff taxes should be imposed for protective purposes only, and promptly removed when not required for that express purpose. The only other exception being taxes on the manufacture of liquor, and on the liquor retail business for restrictive purposes, and to recoup the community for the cost of increased police duty.

Poll taxes should be abolished. The future unearned increment of land values should be gradually absorbed by the State, commencing by equalizing the taxes on all land, vacant, as well as occupied.

Progressive inheritance taxes, exempting a minimum bequest, the tax to increase in geometrical progression as to the amount, and as against collateral heirs.

A progressive income tax, increasing in geometrical proportion as to the largeness of the income. All franchises to be taxed to their full market value, the same as land, so as to tax out all fictitious capitalization.

Land and improvements to the value of \$2,500, and all incomes below \$1,200 to be exempt from all taxation, except such taxes on real estate due to public improvements that would increase the value of the property.

This system of taxation is justified on two grounds. First, that all should contribute to the support of the State in proportion to their respective abilities, and, second, on the ground that all large fortunes are an unqualified evil, and that progressive taxation, under the present industrial system, is the most effective means to compel a more just distribution of wealth. Recognizing that public ownership will more and more displace private enterprise, this system of taxation, by reducing public service plants and franchises to their actual value, will make it easier for society to gain possession of them, besides providing a fund for their purchase.

Such a system of taxation would simplify government, remove the evils of excessive accumulation of wealth, and prepare the way for a gradual change to a more just and ethical industrial system based on general co-operation in all the means for the production of wealth and culture, and the enjoyment of social peace and happiness.

In conclusion, a word in reply to those who contend that the workman pays no

taxes; that under the capitalistic system, the workman merely gets his subsistence wage; that if his taxes were lowered, his rent reduced, or the cost of services on public utilities lessened, his wage would be reduced in the same proportion. If, as it is contended, all workers succeed in getting their wages raised 25 per cent., the owners of the means of production will raise the price of commodities in the same ratio, and the worker will be just where he was before. This argument is plausible, but shallow. It must be assumed that all capitalists and land owners are now getting the highest price possible for their land and products. The Standard Oil Company could charge fifty cents per gallon for coal oil and gasoline. They find, however, that they can derive the greatest net total profit by selling it at, say, ten cents per gallon. Now an increase in the wages of their men, or an increase in their income or land taxes will not alter that fact. Their greatest profit would still be derived from selling at ten cents per gallon. Therefore, an increase in their taxes, or an increase in the wages they pay their employes, must eventually come out of their surplus profits.

A street car company can make double the profit at five cents per ride than by charging ten cents. An increase in their taxes, or an increase in the pay of their employes can not be recouped by increasing the cost of service, even if their charter permitted it. It must come out of their surplus profits.

The "iron law" of wages is true only in the sense that there is a constant pull or tendency to the minimum wage. As a matter of fact, however, wages are governed solely by the productive power of labor, and by the solidarity, strength and intelligence of the working class in demanding their rights by organized effort. Wages, measured by their purchasing value in all that goes to a better living, food, clothing, shelter, education, culture, travel, art, etc., have more than doubled in fifty years. With the aid of a system of taxation, such as I have briefly outlined, the public ownership of industrial monopolies, and the addition to our political system of direct legislation, direct primaries, proportional representation, a legal eight-hour day, the restriction of child labor, and the restriction of government by injunction, there is no reason why an intelligent and organized working class should not continually increase

their wages until it absorbs all wealth over that necessary to pay the cost of superintendence and the replacement of capital.

This is the aim of trades unionism. To it we owe almost every improvement in the condition of the working classes. Trades unions have been the heroic pioneers, and they are the present most ef-

fective workers towards the realization of an industrial democracy, no matter how unconscious they may be of that ideal. There is no short cut to an ideal social and economic system. That system will not arrive until we have developed the social consciousness, the economic intelligence, and the civic virtues that will make it possible, as well as permanent.

